

City of Seattle
Office of City Auditor



Susan Cohen, City Auditor

May 21, 2004

The Honorable Greg Nickels
Seattle City Councilmembers
City of Seattle
Seattle, Washington 98104

Dear Mayor Nickels and City Councilmembers:

Attached is our report on *Impound Services*. This review was initiated at the request of the Director of the Department of Executive Administration. The primary objectives of the review were to determine whether internal controls surrounding the impounding function and processes were adequate. We especially focused our efforts on reviewing financial controls.

We appreciate the excellent cooperation and collaborative efforts of the Department of Executive Administration and the Seattle Police Department management and staff during the review process. The Department of Executive Administration response to our review is included in the report as Appendix 4.

Sincerely,

Susan Cohen
City Auditor

SC:rh

Attachment

IMPOUND SERVICES

Internal Controls Review

May 21, 2004

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CHAPTER 1: INTRODUCTION AND BACKGROUND

The City of Seattle contracts with three towing companies to perform vehicle impounds authorized by police and parking enforcement officers. Vehicles are impounded for a variety of reasons, including peak parking violations. Chapter 46.55 of the Revised Code of Washington (RCW) and Chapter 11.30 of the Seattle Municipal Code (SMC) provide the primary legal authority and guidelines for City impounds. The City currently impounds about 30,000 vehicles per year. Some impound charges are paid by the City, but the vast majority of the charges are the vehicle owner's responsibility. The vehicle owner also pays an administrative fee to the City for most impounds. Currently, the City is collecting about \$440,000 annually for administrative fees and paying the tow companies about \$240,000 annually for impound charges. The City's Revenue & Consumer Affairs (RCA) division, which is housed within the Department of Executive Administration (DEA), serves as the contract administrator, and the Seattle Police Department (SPD) has budget authority for impound charge expenses.

Our review focused on evaluating the controls governing impound policies, programs, operations, contracts, and vendor services, and financial management of impound expenses and revenues.

RESULTS IN BRIEF

Overall, we found internal controls¹ were adequate for impound operations, policies, programs, and vendor services. However, we found that the City's financial management controls over invoice payments and collection of administrative fees were inadequate. We also found that the City's policies related to "abandoned" vehicles parked on the street over 72 hours and "junk" vehicle impounds may have resulted in negative consequences, and that there is very low compliance by citizens with the requirements of the impound hearing time-pay ordinance. Several improvements are needed in the areas of vendor contracts and information systems support.

The City has not been properly reviewing tow company invoices. One of the three tow contractors was over-charging the City, which resulted in over-payments to the vendor of approximately \$73,000 during the last several years. In addition, the City has not properly reviewed administrative fee revenues submitted by the tow companies to verify their accuracy. It was discovered during the audit that one vendor underpaid administrative fees to the City by approximately \$29,000 (over a two-year period) due to an error in their computer system. In addition, the other two vendors may have not paid the City the appropriate amount of revenue as well.

While impound policies and programs overall appear to be effective, we found problems with policies in two areas. Policies related to "abandoned" and "junk" vehicles may have had

¹ Internal controls are the practices and procedures of an organization that are designed to help ensure: 1) protection of assets; 2) compliance with laws, policies, and procedures; 3) integrity of management information (i.e., information is accurate, complete, timely, and usable); 4) effectiveness of operations; and 5) efficiency of operations.

negative consequences, such as an increased number of these vehicles on the streets, which decreases community cleanliness and safety. In addition, we found very low compliance with impound time-pay arrangements. The City establishes time-pay arrangements for citizens who cannot pay their impound charges. Then the City pays the tow companies' impound charges to get vehicles released to these citizens. In other words, the City essentially loans the payment to the citizens. However, citizens have not repaid the City what they owe and the City has been unsuccessful in collections efforts. We found that citizens paid the City only 24 percent of what they owed. This cost the City almost \$46,000 in 2003.

There are some improvements needed in the areas of contract terms, compliance, and bidding. While the bidding and vendor selection processes appear to have been handled properly when the contract was last bid in 1998, the contract is one-year overdue for being re-bid. While the City and the tow contractors appear to be in overall compliance with contract terms, there are a few areas where compliance issues exist. These areas relate to signs for the public, payment types accepted for vehicle redemption, and completion of vehicle report forms. There are some contract terms that are not consistent with City impound policies and practices that should be modified. The contract terms that require modification relate to tow company invoicing and City rates, treatment of "high-risk" vehicles, and security deposits.

The City's impound database system needs improved system maintenance and support.

BACKGROUND

Police officers and parking enforcement officers initiate vehicle impounds for various situations including illegal parking during peak times, parking in a bus/disabled zone, abandoned vehicles, Driving While License Suspended (DWLS), parking scofflaws (four or more unpaid parking tickets), and situations requiring a vehicle for evidence as part of accident or criminal investigations. Peak parking violation impounds make up the largest percentage of the total volume. Chapter 46.55 of the RCW and Chapter 11.30 of the SMC provide the primary legal authority and guidelines for City impounds. The City currently impounds about 30,000 vehicles per year. Impound charges are paid by either the City or the vehicle owner, depending on the situation. The vast majority of impound charges are paid by the vehicle owner. In addition, the vehicle owner pays an administrative fee to the City for most impounds. Currently, the City is collecting about \$440,000 annually in administrative fees and paying the tow companies about \$240,000 annually for impound charges.

The City contracts with three towing companies to "tow, store, protect, and release or otherwise dispose of vehicles ordered impounded" by the City. These contracts were last put out for competitive bid in 1998. For purposes of the impound contract, the City is divided up into six zones. Tow companies are allowed to bid for one to four zones. Impounds within a zone are automatically directed to the designated tow company for that zone. Currently, there are three vendors serving the six zones. GT Towing provides service for West Seattle; Columbia Towing for Southeast Seattle; and Lincoln Towing (a Road One West company) for downtown, Central, and North Seattle. The City has contracted with these three tow companies for more than ten years.

The City's Revenue & Consumer Affairs division has primary responsibility for administering

the impound contracts. However, contract administration duties and responsibilities are distributed among several City departments and divisions, including units within the Seattle Police Department and the Seattle Municipal Court. (Appendix 1 contains a table of contract administration responsibilities and functions.) Until December 2002, Revenue & Consumer Affairs had budget authority for City impound charge expenses. In January 2003, the Police Department assumed budget authority for impound expenses, but Revenue & Consumer Affairs retained the duties of primary contract administrator in accordance with a November 2002 Memorandum of Agreement with the Police Department.

SCOPE AND METHODOLOGY

In July 2003, at the request of the Director of the Department of Executive Administration, we initiated this review of vehicle impound services. The Director requested the review because of concerns raised by the Police Department about potential overcharges on tow company invoices submitted to the City. During this review, we focused on internal controls, with an emphasis on financial controls. Specifically, we reviewed internal controls relating to the areas listed below:

- Bidding Process and Vendor Selection
- Contract Terms and Conditions
- Contract Administration
- Vendor Compliance
- City Impound Operations
- Tow Contractor Impound Operations
- Impound Policies and Programs (including the DWLS program)
- Court Impound Hearings and Time-Pay Arrangements
- Tow Company Invoices/Expenses
- Administrative Fee Revenues
- Accounting for Expenses and Revenues

It should be noted this review only covered impounds authorized by the City, generally by police and parking enforcement officers. These types of impounds are considered “non-consent” tows. This review did not cover “private tows” that took place within the City. Private tows are those requested by the vehicle owner or a property owner (e.g., a retailer or apartment building owner). Both of these types of tows are considered “consensual” tows.

We based our audit conclusions on interviews with City and tow company personnel, review of City and tow company documentation, analysis of data, observation of City and tow company operations (both in the office and in the field), and benchmarking with other municipalities.

The review of impound services was conducted between July and October of 2003. We used a risk-based approach and sampling techniques, which allow for a cost-effective way to review significant controls. Our review, therefore, would not necessarily disclose all significant weaknesses and irregularities. The review was conducted in accordance with the Standards for the Professional Practice of Internal Auditing.

CHAPTER 2: IMPOUND SERVICES INTERNAL CONTROLS REVIEW

The Office of City Auditor conducted this review to determine the condition of internal controls for the City's impound operations, policies and programs, including the functions performed by third-party providers. Overall, we found internal controls to be adequate for impound operations, policies, programs, and services provided by the tow contractors. However, we found financial controls over payment of impound invoices and collection of administrative fees to be inadequate. We also found that the City's policies related to abandoned vehicles and "junk" vehicle impounds have had negative consequences, and that there is very low compliance by citizens with the requirements of the impound hearing time-pay ordinance. In addition, several improvements are needed in the areas of vendor contracts and system support.

Conclusion 1: Current City Procedures Do Not Ensure The Impound Expenses Paid By The City And Administrative/DWLS Fee Revenues Remitted Are Accurate.

Subfinding 1: The City was not properly reviewing tow company invoices, which resulted in city overpayments for impound expenses.

Background

The three tow companies the City contracts with, bill the City monthly for impound charges the City is responsible for. The tow companies' contracts and contract change orders specify their billing rates. Revenue & Consumer Affairs is responsible for reviewing the invoices, approving them for payment, and then sending approved invoices to the Seattle Police Department's finance unit, where the invoices are authorized for payment. The invoice expenses are charged against the Police Department's budget. Currently, the City pays about \$240,000 annually for impound charges.

Issues

Tow company invoices should be properly verified with supporting City documentation to ensure their accuracy. Any potential exceptions should be researched and resolved before invoice payment. Our audit fieldwork indicated that this was not occurring. We noted the following internal control weaknesses:

1. The City's review and verification procedures for tow company invoices were not adequate. Invoices were reviewed and "reconciled" by an Administrative Specialist in Revenue & Consumer Affairs, then passed to the Manager for approval. The Manager was relying on the Administrative Specialist's work. The Administrative Specialist was performing a limited and inadequate review of the invoices. We noted the following weaknesses with the City's invoice review procedures:
 - Towing company invoices were not consistently matched to supporting City backup documentation.
 - Appropriate follow-up questions and research did not occur.

- No attempt was made to verify the accuracy of vehicle storage days charged. Storage is charged by the half day for time the vehicle remains on the tow company lot.
 - Management oversight of the Administrative Specialist's invoice review work was not adequate.
2. Our audit tests indicated that GT Towing overcharged the City and was overpaid by the City. DEA estimates overcharges amounted to approximately \$73,000 over the last several years. GT Towing consistently charged inappropriately for Driving While License Suspended (DWLS) impounds, and consistently added inappropriate standby time charges. Overcharges by GT Towing represented more than 50 percent of the total invoice value we reviewed. We noted no significant issues with the accuracy of Lincoln Towing (except for the issue with administrative fees, which is discussed in subfinding #2) or Columbia Towing invoices.
 3. Lincoln Towing was not complying with section 9.3 of the contract, which requires the submittal of certain types of backup documentation with the invoices sent to the City.

These problems occurred for several reasons. The Administrative Specialist responsible for reviewing the invoices did not have a background in accounts payables duties, and had received no training on how to reconcile the tow company invoices. She stated that she basically approved payment for invoices the vendors sent. A Revenue & Consumer Affairs Manager was responsible for approving the invoices after the Administrative Specialist had reviewed them. The Manager stated that she assumed the Administrative Specialist knew how to properly perform this job function because the employee had been performing it for several years before the Manager assumed oversight responsibility for this area. Apparently, there had been insufficient management oversight of invoice review for many years, including the time when other persons held the Specialist position. Consequently, it is possible that the City has overpaid for impound services for several years.

ACTIONS

Department of Executive Administration Response

The contract in place has been amended two times during the five-plus years of the contract period, and some of the amendments, which were made as a result of legislated changes to the City's towing practices, created confusion and ambiguities. DEA, along with SPD and the Municipal Court, are preparing a new contract which will clarify when and how the City is to be billed for services rendered by the impound contractors. The new contract will be put out for bid in June 2004. In conjunction with the Police Department, DEA has put into place procedural safeguards to prevent over-billings in the future. Invoices are now carefully reviewed and impound contractors are required to submit appropriate backup documentation to substantiate invoice charges.

DEA performed additional invoice review for two of the impound contractors, GT Towing and Lincoln Towing, and plans to review the third contractor's invoices by the end of 2004. DEA's invoice review indicated no billing problems with Lincoln Towing, but substantial problems with GT Towing. DEA found that for the period of August 1998 through December 2003, a total of approximately \$73,000 in over-billings was received from GT Towing. DEA sent a letter to the

contractor on April 15, 2004, requesting repayment of this amount or submission of documentation validating the charges.

Seattle Police Department Response

A vehicle report and/or citation is required for an initial tow service request to tow contractors. SPD has modified and renamed a form formerly call “Investigatory Hold.” The revised form is now called “Impounded/Custodial Tracking.” The revised form will be completed each time a request is made to a tow company to provide secondary tow services. One copy of the form will be distributed to the tow company and one copy to DEA. In addition, DEA now has “Read Only” access to the TOWS system. SPD’s Auto Records Section receives information from a variety of sources on vehicles towed Citywide, then updates the TOWS system daily. The vehicle reports, citations, revised form, and access to the TOWS system will enable DEA to easily match the invoices submitted by the tow contractors with the services actually requested by SPD.

Subfinding 2: Administrative fee revenues are not verified for accuracy, which has resulted in underpayments to the City.

Background

Since 1995, the City has assessed a fee for each redeemed vehicle to help cover the City’s expenses for administering the impound programs and the development and maintenance costs of the City’s TOWS impound information system. The fee for a Driving While License Suspended (DWLS) impound or parking scofflaw impound is \$67, while the fee for all other City impounds is \$15. These fees are collected by the tow companies, remitted monthly to Revenue & Consumer Affairs, and posted to a City General Fund account. Currently, the City collects about \$440,000 annually in fees. It should be noted that fees are not assessed for vehicles that are not redeemed by the citizen (which normally results in the impounded car being sold through an auction) or for certain DWLS scenarios.

Issues

Administrative fee revenues should be properly remitted by the tow companies, and reviewed and verified for accuracy by the City. Any potential exceptions should be researched and resolved by the City. Our audit fieldwork indicated this was not occurring. We noted the following internal control weaknesses:

- The City was not verifying the accuracy of the fees submitted by the tow companies nor has the City ever performed an audit of fee remittances. By taking such actions the City could better ensure that tow contractors submit sufficient fees.
- Our tests of a sample of tow company invoices revealed instances where Lincoln Towing and GT Towing inappropriately charged Administrative/DWLS fees to the City. It was determined that Lincoln Towing had been under-submitting administrative fees to the City for the last two years, due to an error with their computer system affecting certain types of impounds. Lincoln Towing has corrected this problem and remitted \$29,000 to the City for past underpayments.

- Each tow company is handling the submission of administrative fees to the City differently. Lincoln Towing sends a check with detailed supporting backup. GT Towing sends a check with insufficient backup. Columbia Towing sends a cover sheet with backup for the fees collected along with a monthly invoice to the City and then, upon receipt of the invoice payment, they immediately write a check to the City for the amount of the fees and send it by courier.
- Revenue & Consumer Affairs does not require the tow contractors to conform to a set schedule for submission of administrative fees. The fees are accepted by Revenue & Consumer Affairs whenever the tow companies submit them. GT Towing is consistently behind in paying administrative fees.

Revenue & Consumer Affairs has not attempted to verify administration fee revenues partly because of a lack of data on vehicle redemptions. Currently, the City does not collect data on vehicle redemptions or documentation on auctioned cars. If this data were collected, it could be used to verify the accuracy of administrative fee revenues. Alternatively, the City could conduct periodic audits of tow company records to determine if fees were accurately remitted. Current practices negatively affect the City's cash flow and have resulted in "lost revenues."

ACTIONS

Department of Executive Administration Response

DEA performed additional invoice review for both GT Towing and Lincoln Towing. During this review, DEA noted that Lincoln Towing was under-submitting administrative fees to the City in certain impound scenarios, due to a systems glitch. Lincoln Towing installed a new system about two years ago, which triggered this problem. Lincoln Towing has corrected the problem and remitted \$29,000 to the City for past underpayments.

Going forward, DEA will perform periodic reviews of administrative fee submissions for all three towing contractors. Enhanced reporting will be provided to allow for this. The review process will be in place by the end of 2004.

Conclusion 2: Overall, The City's Impound Policies And Programs Appear To Be Effective In Achieving Desired Civic Objectives, With Two Exceptions. Policies Related To "Abandoned" Vehicles And "Junk" Vehicles May Have Resulted In Negative Consequences. We Also Found Very Low Compliance With Impound Hearing Time-Pay Arrangements, Which Cost The City Almost \$46,000 In 2003.

Subfinding 1: Policies related to "abandoned" vehicles and "junk" vehicles may have resulted in negative consequences.

Background

In the City of Seattle, vehicles may be impounded if they have been parked on a street in the same place for 72 hours or longer.² In 2000, the Seattle Municipal Code (Section 11.30.060A)

² RCW 46.55.070 states that a vehicle may not be impounded before 24 hours.

was changed from allowing parking for 24 hours to 72 hours. Generally, to initiate an impound, a citizen needs to call in a complaint to the City. After the City receives a complaint, a parking enforcement officer will be dispatched to put a Warning Notice on the car. It may take Parking Enforcement 48 hours or more to do this, depending on the size of their work backlog. Then, after 72 hours from the time the complaint was filed (or longer depending on Parking Enforcement's workload), Parking Enforcement will issue a citation, mark IMP on the car with orange paint, and notify Police Department Communications that the vehicle should be impounded. Police Communications notifies the tow companies and then, the tow companies have 48 hours to impound the car. Consequently, vehicles will generally sit on the street for at least 8 to 10 days before they are impounded. However, a "junk vehicle," which is generally an inoperable vehicle, may be impounded immediately according to Section 11.30.040 of the Seattle Municipal Code.

Issues

Impound policies should help ensure the City's streets are clean and safe. Current policies related to "abandoned" and "junk" vehicles do not appear to be effective in achieving these objectives. The following issues were noted during the audit:

- There has been a substantial increase in abandoned vehicles on City streets and abandoned vehicle impounds within the last few years. (Appendix 2 contains data on "abandoned" vehicle impounds.) In addition, since the law was changed in 2000 to allow parking for 72 hours versus 24 hours, the workload for parking enforcement officers has increased significantly and the City's ability to deal with citizens who are "abusing" the law has been limited. Parking Enforcement now must make more trips to the vehicles to issue warning notices and check later to see whether they are still parked in the same location. Some citizens own many vehicles and use the streets as their personal garage, moving their cars in time to keep them from being impounded. This is easier to do now with the longer time period allowed. The number of trash-filled vehicles has also increased and when trash-filled vehicles remain parked on the street, people tend to treat the cars like dumpsters and deposit more trash in or on them. Obviously, abandoned vehicles of this type create eyesores for these neighborhoods.
- Some citizens use vehicles as a source for auto parts and then discard them. People buy unclaimed vehicles for little money (e.g., \$10 to \$25) at tow company auctions, drive the car a few blocks away from the tow company lot and remove the parts they need, and then leave the car. The car will be impounded again as an abandoned vehicle. This can happen repeatedly for the same car until it is finally sold at an auction to a wrecking/salvage company. This creates eyesores for these neighborhoods.
- According to the tow contractors and City officials, there is a problem with abandoned vehicle repeat offenders. Some citizens challenge the propriety of the impound through a magistrate hearing and win the hearing, even though they are repeat offenders of 72-hour parking limits. The City then pays the tow company for the charges associated with these impounds.
- City policies and procedures for dealing with junk vehicles and vehicles filled with trash and hazardous materials need to be clarified. There has been confusion between the tow

contractors and various City departments about how these situations should be handled. Once procedural decisions are made, the contract language dealing with this area will need to be expanded and updated. Any policy/procedural changes need to be properly communicated to tow contractors and all City parties involved before implementation.

Both Parking Enforcement and the tow contractors appear to be doing their jobs appropriately and adequately. However, current policies appear to allow some citizens to take advantage of the law. Current policies have contributed to an increased number of abandoned vehicles on the street, increased safety hazards for children playing nearby, more trash-filled vehicles, and more neighborhood eyesores. We recommend that the City review its policies and, if necessary, change them to better accomplish desired civic objectives.

ACTIONS

Note: This is a policy-related issue and would require action on the part of the City Council to change the current situation.

Seattle Police Department Response –“Junk Vehicle” Issue

For 2005 and 2006, SPD will receive a baseline budget increment in the amount of \$15,000 to handle the additional costs associated with the issue of trash in vehicles. SPD will work with SPU and DEA to finalize operational procedures for removal of enough trash in vehicles to allow tow contractors the ability to tow the vehicles off the streets. In addition, SPD is identifying additional staff in the department who will certify a vehicle as “junk” and develop written procedures that will be communicated to tow contractors via DEA.

Subfinding 2: *There is very low compliance with impound time-pay arrangements, which cost the city almost \$46,000 in 2003.*

Background

Citizens whose vehicles are impounded may request a hearing with a magistrate. During a hearing a citizen may challenge the propriety of an impounded vehicle, or more commonly, request early release of a vehicle that was impounded because the driver was charged with Driving While License Suspended (DWLS). The spouse or domestic partner of a citizen charged with DWLS can also request a hearing to request release of a vehicle. Citizens whose vehicles have been authorized for release, whether through a magistrate hearing or the natural expiration of a DWLS hold period, may lack the funds to pay the impound charges. According to Seattle Municipal Code 11.30.160B, magistrates can authorize time-payments for the impound charges. In these cases, the court collects a deposit of 20 percent of the amount owed, if possible, and sets the citizen up on time-payments for the remainder. The City then pays the tow company for the amount of the impound charges. In effect, the City loans the money for the outstanding impound charges to the citizen.

Issues

According to the Seattle Municipal Code, time-pays should be authorized for a citizen only if there “is an effective guarantee of payment.” Currently, there are several issues with time-pay collections:

- Collection rates for time-pay receivables are very low at about 24 percent. Since the City collects a deposit of 20 percent at the courthouse, this indicates that citizens only pay about 4 percent beyond the deposit amount. This cost the City almost \$46,000 in 2003 for impound charges paid to the tow companies. Consequently, the City essentially provides a “gift” to the citizen instead of a loan. (Appendix 3 contains time-pay collection data for 2002.)
- Other municipalities in the state of Washington do not allow time-pay arrangements for impound charges. Most municipalities in the state allow for time-pay or community service for outstanding traffic citations, but Seattle is the only municipality in the state that allows time-pay for impound charges.
- Other than being turned over to a collections agency, there are no penalties to citizens if they don’t repay their time-pay amount for impound charges. Conversely, in the case of time-pay arrangements for traffic citations or fines, when the citizen does not pay, the court notifies the Washington State Department of Licensing, which will suspend the citizen’s driver’s license.

The current time-pay policy is not in compliance with the Seattle Municipal Code, which requires an “effective guarantee of payment.” In addition, the current policy does not match the intent of the time-pay legislation, which is to provide a “helping hand” to citizens who need it, but not to relieve them of their financial and legal responsibilities.

We recommend the City reevaluate the current policies and procedures.

ACTIONS

Note: This is a policy-related issue and would require action on the part of the City Council to change the current situation.

Conclusion 3: In General, The Controls Over The Contracting Process Are Adequate And Contract Compliance Is Sufficient. However, Some Improvements Are Needed In The Areas Of Contract Terms, Compliance, And Bidding.

Subfinding 1: There are some contract terms that are not consistent with city impound policies and practices.

Background

The City’s current contract with the tow companies was written and executed in 1998. Since that time, City impound policies and programs have changed substantially, including the implementation of the DWLS (Driving While License Suspended) impound program. The contract has been amended several times with change orders.

Issues

City impound policies and procedures should be consistent with contract term requirements. Currently, there are some instances where this is not the case and contract terms need to be modified:

- **Billing and Rates** – Contract Sections 9 and 10, which cover tow company rates and invoicing of the City, need to be expanded. Although the City can be billed for several different impound scenarios, currently only billing for Investigatory Holds is thoroughly addressed in the contract. Consequently, the tow companies have been billing the City at the higher “citizen rates” versus the lower “city rates” for all impound scenarios other than Investigatory Holds. This is in compliance with the current contract, but is clearly not in accord with the City’s intent, and is costing the City about \$8,000 annually.

- **“High-Risk” Vehicles** – Vehicles that were involved in serious crimes (e.g., drug crime, murder, and so on) are often critical pieces of evidence and should be protected. Because of their importance as evidence, these vehicles may be at greater risk of attempted theft. Consequently, City procedures should direct “high-risk” vehicles to be sent directly to the Police Department’s “evidence room” or long-term storage lot. Currently, neither the Police Department Directive on Investigatory Holds nor the impound contract, address the treatment of “high-risk” vehicles. It has been the Police Department’s practice to send “high-risk” vehicles to police facilities, but there is no procedure stating this. During audit fieldwork, we observed that both the police evidence room and storage lot were full, which meant that some “high-risk” vehicles were sent to the tow companies. One of these cars was stolen off the GT Towing lot. GT Towing suffered property damage as a result of the break-in and the company’s night watchman was at risk. This situation exposes the City to loss of critical evidence and the tow contractors to unnecessary danger. It should be noted that the Police Department expects to have a larger storage lot facility soon, which will hopefully resolve the City’s storage space capacity issue.

- **Security Deposit** – Section 14.4 of the contract requires a \$10,000 security deposit to be collected from each contractor. This term was executed in 1998, but then waived by the City’s Risk Manager, and the monies returned to the contractors. The term should be removed from the next contract.

We recommend the contract terms be modified, as needed, before the contract is re-bid.

ACTIONS

Department of Executive Administration Response

The contract has been amended two times during the five-plus years of the contract period, and some of the amendments, which were made as a result of legislated changes to the City’s towing practices, created confusion and ambiguities. DEA, along with SPD and the Municipal Court, are preparing a new contract which will clarify when and how the City is to be billed for services rendered by the impound contractors. Because of this collaborative planning, the coordination among all of the departments involved with this contract has improved significantly. The new contract will be opened for bid in June 2004, with the winning contractors assuming responsibilities on October 1, 2004. The three departments are also establishing clearly written internal guidelines and procedures to ensure that City internal responsibilities are properly accomplished. These procedures will greatly enhance the continued coordination between all City departments that are involved with the impound contract.

Seattle Police Department Response – “High-Risk Vehicle” Issue

It is difficult to interpret the auditor’s definition of “high-risk” vehicle. It is a matter of policy that sworn officers analyze and evaluate each incident. Based on the sworn officer’s knowledge and experience, he or she will use judgment to determine whether a vehicle can be towed to the tow contractor’s lot, or whether the vehicle must be towed to the processing room for evidence processing. To alleviate the problem associated with the unavailability of long-term storage for vehicles in City-owned facilities, SPD will be moving to a larger storage facility located at Park 90/5 in June 2004. Also, SPD is researching the feasibility of continuing to lease an existing City-owned vehicle storage facility on a month-to-month basis until there is certainty that adequate space exists at the new Park 90/5 location. Finally, SPD will be working with Prosecutors to inquire about the need to continue to store vehicles when a case has been adjudicated.

Subfinding 2: *Current city and tow company impound practices are not in compliance with some contract terms/conditions.*

Issues

City and tow company impound practices should be in compliance with contract term requirements. Currently, there are some instances where this is not the case and non-compliance issues need to be addressed:

- **Signs** - The contract requires the City to provide updated signs detailing citizen rights and vehicle redemption procedures to the tow contractors, and the tow companies are required to post them in public view. Signs have not been updated for years, and only one of the tow companies had the old sign posted when we visited their offices. Revenue & Consumer Affairs should provide updated signs to the tow contractors to help ensure that citizens are fully informed.
- **Accepted Form of Payment for Vehicle Redemption** – According to the contract and state law (RCW 46.55.120 2a), the tow contractors are required to accept cash and bankcards as payment for impound charges. Currently, GT Towing does not accept bankcards and thus is not in compliance with this contract term. This situation limits citizens’ abilities to redeem their vehicles.
- **Vehicle Reports** - The Police Department completes a Vehicle Report form when they authorize an impound and give a copy of the form to the tow truck driver. The Vehicle Report includes information on why the vehicle is being impounded, where it should be taken, the driver’s name and address, etc. Vehicle Reports should be adequately filled out at the time of impound, since this information can be important for the tow company to properly process the vehicle. We observed during fieldwork that Vehicle Reports are not always adequately completed. Proper procedures and their importance should be communicated again to the police officers. It should be noted that the Police Department’s Auto Records section began providing training to police officers on proper completion of Vehicle Report forms in September 2003.

City practices and GT Towing practices should be brought into compliance with these contract terms.

ACTIONS

Department of Executive Administration Response – Signs And Accepted Payment Methods

DEA has corrected the lack of signage at the contractor's place of business. New signage has been delivered that will keep citizens fully informed of their appeal rights. DEA has also conveyed to GT Towing their responsibility to follow contract and state law and accept credit cards as a valid payment option.

Seattle Police Department Response – Vehicle Reports

SPD has incorporated training for new officers on completing the Vehicle Report as part of the Basic Law Enforcement Training (BLET) course. In addition, SPD will conduct training at all precinct roll calls for Lieutenants, Sergeants, and Officers in May and June 2004. Also, training will be conducted for Detectives and Detective Sergeants by the end of June 2004. Finally, when the new Records Management System becomes operational in August 2005, the system will not allow acceptance of the Vehicle Report until all appropriate fields have been completed.

Subfinding 3: *The contract is one-year overdue to be re-bid.*

Background

The current City contract with the tow companies was bid and executed in 1998. During the 1998 bid process, there was very limited competition, and only one bidder for three of the six zones. Most likely, the small number of bidders was due to the fact that the contract requires the tow companies to own or lease a lot of a fairly substantial size, within City limits, in or near the zone(s) they are bidding for. There are very few tow companies that currently have lots which meet the City's requirements, and acquisition of property within the City is difficult and expensive.

Issues

Contracts should be periodically re-bid to ensure the City is receiving the best price for the service. The competitive landscape is always changing. The contract has now been extended for a one-year period three times, which is one time beyond what was called for in the 1998 "blanket" contract. According to City officials, the reason the contract was not put out for bid during the spring of 2003, which was the expected time of re-bid, was due to resource issues in the City's Purchasing and Revenue & Consumer Affairs units, which were busy with other City higher-priority matters.

The contract should be rewritten to reflect changes made to City impound policies/programs and to address deficiencies noted in the other audit findings; and it should be re-bid. To increase competition for this contract, the City may wish to consider the options of either purchasing land and leasing it to the tow companies, or allowing them to use a tow lot located outside of City limits, but near their zone (i.e., slightly north or south of the City). This would increase the pool of tow companies qualified to bid.

ACTIONS

Department of Executive Administration Response

DEA, along with SPD and the Municipal Court, are preparing a new contract. Because of this collaborative planning, the coordination among all of the departments involved with this contract has improved significantly. The new contract will be opened for bid in June 2004, with the winning contractors assuming responsibilities on October 1, 2004.

Subfinding 4: No control issues exist with the current contract administration arrangement, but alternative arrangements would be acceptable.

Background

The City's Revenue & Consumer Affairs unit currently serves as the primary contract administrator for the impound contracts. In January 2003, the Police Department assumed budget authority for impound charge expenses; previously, Revenue & Consumer Affairs had budget authority. Until the 1970s, the Police Department served as the impound contract administrator. At that time, because of concerns regarding improprieties with police officers directing business to tow companies in exchange for kickbacks, the City moved the contract administration responsibility to a newly created entity called Licensing & Consumer Affairs. The Licensing & Consumer Affairs has evolved into the present-day Revenue & Consumer Affairs unit.

Issues

There should be appropriate separation of duties and authority to ensure that City employees cannot personally benefit from vendor relationships. Currently, the arrangement with Revenue & Consumer Affairs serving as contract administrator meets this criteria. However, we believe that there would be no ethical or internal control issues if the Police Department were to assume the contract administrator role, as long as the management supervising the police officers and parking enforcement officers were separate from the management administering the impound contract. Undoubtedly, given the organizational structure of the Police Department, the appropriate administrative measures would be ensured. There would only be cause for concerns if the contract administrator had the ability to influence impound practices and volumes.

We have no opinion on whether the Department of Executive Administration's Revenue and Consumer Affairs unit or the Police Department should administer the contract; however, we wanted to address the internal control aspects of the towing contract administration because this was an area we were asked to examine by the Director of the Department of Executive Administration.

ACTIONS

Seattle Police Department Response

In 2002, when the decision was made to transfer the budget from DEA to SPD to pay for towing services, the issue of moving the administration of the contract to SPD was also raised. At that time, an opinion was sought from the City's Office of Ethics and Election. The Office of Ethics and Elections recommended the administration of the contract should not be transferred to SPD.

The following are excerpts from the analysis of the issue written by the Office of Ethics and Elections:

- The Code of Ethics prohibits City Officers and employees from engaging in activity that would or would appear to conflict with, be incompatible with, or impair judgment in performing official duties. SMC 4.16.070(1)(a) provides that no current officer or employee shall: Engage in any transaction or activity, which is, or would to a reasonable person appear to be, in conflict with the proper discharge of official duties, or which impairs, or would to a reasonable person appear to impair, the officer's or employee's independence of judgment or action in the performance of official duties and fail to disqualify him or herself from official action in those instances where the conflict occurs and (emphasis added)
- The code also prohibits City officers and employees from using their City positions in a manner that would or would appear to be primarily to achieve a private gain for themselves or another. SMC 4.16.070(2)(a) provides that no current officer or employee shall:

Use his or her official position for a purpose that is, or would to a reasonable person appear to be primarily for the private benefit of the officer or employee, rather than primarily for the benefit of the City: or to achieve a private gain or an exemption from duty or responsibility for the officer or employee or any other person. (emphasis added)

We appreciate that there are serious problems with the administration of a contract by a department that does not have authority over the employees who use the contractor's services. Those are operational problems that can be resolved and we are available and willing to assist in resolving them.

Office of City Auditor Response to Seattle Police Department Response

The Office of City Auditor agrees with the Office of Ethics and Elections that ensuring proper separation of duties is a critical internal control. However, as long as the SPD management responsible for contract administration is separate from management of police officers authorizing impounds, there should be no actual or perceived separation of duties issues. In the past, police officers used to have the ability to influence which towing companies impounds were directed to, but this is not possible anymore with impounds directed to tow contractors depending on the zone the impound takes place in.

Conclusion 4: Support For And Maintenance Of The TOWS System Could Be Improved.

Background

The TOWS system is the database used by the City to track impound-related information. This system was developed and implemented by the Information Technology unit within the Department of Executive Administration (DEA) in 2001. The Seattle Police Auto Records section is responsible for entering data into the TOWS system.

Issues

Information systems containing important City data should be properly supported and maintained. Currently, this area needs some improvement for the TOWS system. There are several issues relating to system maintenance and updates that need to be addressed:

1. Technical responsibility for the TOWS system was supposed to have transferred from the Department of Executive Administration to the Police Department's Information Technology (IT) function in July 2003, but was delayed due to issues requiring resolution by the system's developer. During the time of our audit fieldwork, it appeared that no one from Police IT had assumed responsibility for the system or been trained on it. This needs to occur so that the department can effectively deal with TOWS system routine maintenance issues and perform needed data queries.
2. The TOWS system needs to be updated to address program/policy changes:
 - Letters and forms require updating.
 - Hearing screens need to be updated for Driving While License Suspended (DWLS) hearing information.
 - DWLS letters require updating.
 - Business requirements have not been written for this project and target dates have not been estimated. City personnel are currently performing additional manual work due to the outdated system forms and screens.
3. Currently, the TOWS system is not set up to capture certain data that affects tow company billing, such as whether a vehicle was more than 20 feet long, or the use of special equipment (e.g., winches, dollies) was required. Consequently, there is no way to verify the accuracy of tow company invoices for these additional charges. We recognize that the cost of adding this control may not be worth the benefit.

The current situation makes it difficult or impossible for various City entities to acquire needed impound-related information, and increases manual effort required by the Police Department's Auto Records and DWLS units. Someone within Police IT should be assigned technical responsibility for the TOWS system and decisions should be made regarding which of the requested system changes and updates will be pursued.

ACTIONS

Seattle Police Department Response

Technical responsibility for the TOWS system has been transferred from DEA to SPD, and Police IT staff are now providing routine maintenance for the existing system. Decisions about which changes and updates should be pursued are dependent upon resource availability. Specifically, a portion of the towing fee collected was intended to provide ongoing resources for support and enhancements to the TOWS system. At this point in time, that funding has not been made available to SPD. If that funding becomes available, work on the proposed enhancements can begin. Lacking that source of funding, work on TOWS must be prioritized against multiple competing demands within SPD.

APPENDIX 1
CONTRACT ADMINISTRATION RESPONSIBILITIES AND FUNCTIONS

City Department or Outside Agency	Responsibilities And Functions
DEA Purchasing	<ul style="list-style-type: none"> • Bid process and vendor selection • Vendor complaints
Revenue & Consumer Affairs	<ul style="list-style-type: none"> • Contract terms and conditions • Day-to-day contract administration • Monitor vendor compliance • Tow company invoice review • Administrative fees remittance review
Consumer Affairs	<ul style="list-style-type: none"> • Tow contractor inspections • Tow contractor public signs • Release of vehicle/personal property to non-registered owner • Citizen complaints • Administrative hearings
SPD Police Officers	<ul style="list-style-type: none"> • Impound Authorization: DWLS, investigatory holds, stolen recoveries, accidents
SPD Parking Enforcement Officers	<ul style="list-style-type: none"> • Impound Authorization: Peak parking, parking scofflaw, parking hazard, “abandoned” vehicle, “junk” vehicle
SPD Communications	<ul style="list-style-type: none"> • Communicates impound information to and receives information from tow companies
SPD Auto Records	<ul style="list-style-type: none"> • Researches vehicle, driver, and registered owner information and updates TOWS impound system
SPD DWLS	<ul style="list-style-type: none"> • DWLS program and documentation
Municipal Court - Magistrate’s Office	<ul style="list-style-type: none"> • Hardship hearings (to request early release of vehicle) • Hearings to challenge impound • Authorize impound hearing time-pay arrangements • DWLS charge hearings - criminal
Public Defenders Association	<ul style="list-style-type: none"> • Legal advice and representation for citizens with DWLS charges
District Court	<ul style="list-style-type: none"> • Magistrate hearing decision appeals
Municipal Court – Court Compliance and Revenue Recovery	<ul style="list-style-type: none"> • Sets up time-pay arrangements • Time-pay collection and tracking
Municipal Court – Ombudsman	<ul style="list-style-type: none"> • Re-Licensing program
CAMP and LELO	<ul style="list-style-type: none"> • Re-Licensing assistance

APPENDIX 2
DATA ON “ABANDONED” VEHICLE IMPOUNDS

Year	Number of "Abandoned" Vehicle Impounds	Percent of Total Impounds
2001	1,300	4% * 24-hour law in effect
2002	3,587	10% * 72-hour law in effect
2003 (Jan. – Sep.)	3,465	13%

APPENDIX 3
TIME-PAY COLLECTION DATA FOR 2002

	Citizens Owed	Citizens Paid	Remainder Left Owing
Jan-02	\$1,031	\$316	\$716
Feb-02	\$941	\$170	\$771
Mar-02	\$1,194	\$335	\$859
Apr-02	\$3,876	\$1,636	\$2,240
May-02	\$2,628	\$530	\$2,097
Jun-02	\$1,481	\$570	\$911
Jul-02	\$5,090	\$529	\$4,560
Aug-02	\$7,749	\$2,230	\$5,520
Sep-02	\$8,546	\$1,568	\$6,978
Oct-02	\$7,883	\$1,446	\$6,437
Nov-02	\$7,399	\$1,959	\$5,440
Dec-02	\$11,249	\$2,183	\$9,066
Totals	\$59,068	\$13,472	\$45,596
		23%	77%

APPENDIX 4
DEPARTMENT OF EXECUTIVE ADMINISTRATION RESPONSE



City of Seattle

Gregory J. Nickels, Mayor

Department of Executive Administration

Kenneth J. Nakatsu, Director

MEMORANDUM

Date: April 8, 2004

To: Susan Cohen, City Auditor

From: Ken Nakatsu, Director *KN*
Department of Executive Administration

Subject: Department Response to Impound Services Internal Controls Review

Thank you for the opportunity to comment on the draft audit of the City of Seattle's towing contracts.

The City impound audit was initiated at the Department of Executive Administration's (DEA) request last summer, and the draft audit was completed during the fall. At the time of our request, we were aware that the review process for billings from contractors needed to be strengthened. Consequently, we appreciate the objective and thoughtful review and comments provided by your staff.

As a result of the Auditor's review and our own investigation, we have concluded that some of the billing errors resulted from misunderstandings and ambiguous language contained in the contract. The contract had been amended two times during the five-plus years of the contract period, and some of the amendments, which were made as a result of legislated changes to the City's towing practices, created confusion and ambiguities. An example of this was the impounding of vehicles driven by divers with suspended licenses (DWLSs). Other errors were simply overcharges to the City. Subsequent research by DEA has found that all of the billing errors were limited to a single contractor. In conjunction with the Police Department, we have put into place procedural safeguards to prevent over-billings in the future and have sought reimbursement from the contractor that overcharged the City. Also, DEA plans to continue the investigation to insure that all billings have proper documentation that supports the charges to the City.

The impound contract is an unusual contract in that at least three departments help run and administer it. These three departments are DEA, which is charged with overall administration; the Seattle Police Department (SPD) which actually impounds vehicles for various reasons, such as parking, evidence, and driving with a suspended license; and the Municipal Court which adjudicates the impounds that are appealed. A fourth department, Seattle Public Utilities, gets peripherally involved with handling trash that is associated with abandoned vehicles on public streets or rights-of-way. Consequently, it

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is difficult to research and verify the validity of some impound contract charges as well as establish procedures and coordinate City efforts.

Nonetheless, the audit showed weaknesses in the review of contractor billings. This was the unfortunate consequence of having to shift responsibilities among DEA staff. Both DEA's Revenue and Consumer Affairs Division and SPD have helped resolve this situation, and all billings in the last half of 2003 and 2004 have been correct, as received, or were sent back to the contractor for documentation or justification.

To correct the past billing errors, DEA has conducted a thorough review of all billings received from the one contractor that the auditor found had over-billed the City during the audit period. DEA found that for the period of August 1998 through December 2003 a total of approximately \$73,000 in over-billings was received from that contractor. A request for repayment of the over-billed amounts or for additional documentation proving that their billing was correct has also been sent to the contractor.

In the preliminary audit findings, the billings from another contractor were thought to be in error, while the third contractor was found to have no errors during the sample periods. DEA reviewed the second contractor that Audit staff indicated may have over-billed the City, expanded the audit sample, and, after carefully examining all information available, found that there were no errors during the expanded sample periods. As stated above, as time and resources permit, DEA intends to investigate all billings to ascertain if these two contractors made any additional errors.

DEA has also corrected the lack of signage at the contractor's place of business. New signage has been delivered that will keep citizens fully informed of their appeal rights. DEA has also conveyed to GT Towing their responsibility to follow contract and state law and accept credit cards as a valid payment option.

DEA, along with SPD and the Municipal Court, is preparing a new contract which will clarify when and how the City is to be billed for services rendered by the impound contractors. Because of this collaborative planning, the coordination among all of the departments involved with this contract has improved significantly. The new contract will be placed for bid in June of this year, with the new winning contractors assuming responsibilities on October 1, 2004. The three departments are also establishing clear written internal guidelines and procedures to insure that City internal responsibilities are properly accomplished. These procedures will greatly enhance the continued coordination between all City departments that are involved with the impound contract.

cc: Valarie Anderson, SPD
Jim Pugel, SPD
Tyler Running Deer, DOF
Ann Kelson, DEA
Mel McDonald, DEA

Office of City Auditor's Report Evaluation Form

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Our mission at the Office of City Auditor is to help assist the City in achieving honest, efficient management and full accountability throughout the City government. We service the public interest by providing the Mayor, the City Council and City managers with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the well-being of the citizens of Seattle.

Your feedback helps us do a better job. If you could please take a few minutes to fill out the following information for us, it will help us assess and improve our work.

* * * * *

Report: Impound Services
Release Date: May 21, 2004

Please rate the following elements of this report by checking the appropriate box:

	Too Little	Just Right	Too Much
Background Information			
Details			
Length of Report			
Clarity of Writing			
Potential Impact			

Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, thoughts, ideas: _____

Name (Optional): _____

Thanks for taking the time to help us.

Fax: 206/684-0900

E-Mail: auditor@seattle.gov

Mail: Office of City Auditor, PO Box 94729-4729, Seattle, WA 98124-4729

Call: Susan Cohen, City Auditor, 206-233-3801

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